



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 12, 2006

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *tm*
Auditor-Controller

SUBJECT: **FISCAL, PROGRAM, AND ADMINISTRATIVE REVIEW OF THE
DEPARTMENT OF PUBLIC SOCIAL SERVICES FISCAL YEAR 2004-05
COMMUNITY SERVICES BLOCK GRANT AND OFFICE OF TRAFFIC
SAFETY EDUCATION PROGRAM SERVICE PROVIDERS**

At the request of the Department of Public Social Services (DPSS), we engaged Moss, Levy & Hartzheim, LLP, Certified Public Accountants (Moss), to conduct fiscal, program, and administrative monitoring for 55 of the 120 community-based organizations that provided Community Services Block Grant (CSBG) and Office of Traffic Safety Education (OTS) program services during Fiscal Year 2004-05. The County paid the 55 contractors approximately \$5 million during Fiscal Year 2004-05.

The CSBG program assists low income individuals and individuals living below the poverty level to attain various levels of self sufficiency. The OTS program provides education services and equipment to promote traffic safety to individuals residing in designated areas within Los Angeles County who are living at or below the State poverty level. In April 1, 2005, the CSBG and OTS programs were transferred to DPSS from the Department of Community and Senior Services (DCSS).

The monitoring was done in two phases. During Phase One, Moss conducted a fiscal and administrative review of each contractor for the Program Year 2004-05 activity. During Phase Two, Moss conducted a follow up review to evaluate the contractors' efforts to implement the recommendations cited in Phase I.

Review Summary

Moss reported the results of each monitoring review to DPSS. Moss also notified each service provider on the results of their Phase I and Phase II reviews. During the reviews Moss noted the following significant findings:

- Seven (13%) of the 55 contractors did not have documentation to support the cost allocation method or expenses. The amount of expenditures that were improperly allocated to the programs totaled \$61,841.
- Eleven (20%) of the 55 contractors did not have documentation to support expenditures or units of services billed. The amount of expenditures that were not properly documented totaled \$74,816.
- Thirty-one (56%) of the 55 contractors did not maintain participant case files containing sufficient documentation.
- Fourteen (25%) of the 55 contractors did not properly approve or record time records totaling \$47,891.
- Twenty-four (44%) of the 55 contractors' financial records indicate weak financial instability.
- Sixteen (29%) of the 55 contractors' bank reconciliations were not properly prepared resulting in questionable costs totaling \$142,326.
- Seven (13%) of the 55 contractors did not have sufficient controls over purchases totaling \$41,143.

Attachment 1 summarizes the significant findings for each service provider and the dollar findings. Moss also prepared a management letter (Attachment 2) which includes recommendations for DPSS to ensure service providers comply with contract and program requirements.

Review of Report

DPSS prepared a response (Attachment 3) to address the recommendations listed in Moss' management letter. In their attached response, DPSS agreed with six of the seven recommendations. DPSS disagreed with Finding A based on their discussions with the State.

DPSS management indicated that they will work with the service providers to resolve Moss' findings. Because of the number of service providers, copies of individual reports are not enclosed, but are available for your review. Please call me if you have any

questions, or have your staff call Donald Chadwick at (626) 293-1102 if you wish to review any reports.

JTM:MMO:DC

Attachments

c: David E. Janssen, Chief Administrative Officer
Bryce Yokomizo, Director, Department of Public Social Services
Public Information Office
Audit Committee

Department of Public Social Services
Fiscal/Program/ Administrative Monitoring of CSBG and Traffic Safety Providers
Fiscal Year 2005-06

	Service Provider	No. of Recommendations	No. of Recommendations Implemented	Dollar Findings for Cost Reimbursement Contracts							
				A	B	C	D	E	F	G	Total
1	Los Amigos Research and Education Institute, Inc.	3	2						(1)		
2	1736 Family Crisis Center	3	2								
3	African American Unity Center	13	0		(1)			(1)	(1)		
4	Antelope Valley Boys and Girls Club	4	4				\$5,239	(1)	(1)		\$5,239
5	Asian Youth Center	4	2			(1)		(1)			
6	Basic Adult Spanish Education	6	3	\$2,386		(1)		(1)			\$2,386
7	Bienvenidos Children's Center, Inc.	3	3			(1)		(1)	(1)		
8	California Council for Veterans Affairs, Inc.	2	0			(1)		(1)			
9	Catholic Charities of Los Angeles, Inc.	7	5			(1)	\$1,774	(1)	\$24,195		\$25,969
10	Center for the Pacific-Asian Family, Inc.	1	1			(1)		(1)			
11	Centinela Valley Juvenile Diversion Project, Inc.	9	3		\$3,495	(1)		(1)	(1)		\$3,495
12	Chicana Service Action Center, Inc.	1	1	\$1,921		(1)					\$1,921
13	Chinatown Service Center	8	4			(1)	\$4,555		(1)		\$4,555
14	Church of our Saviour (Our Saviour Center)	6	5			(1)	\$5,150		(1)		\$5,150
15	Coalition of Mental Health Professionals, Inc.	8	3			(1)			\$2,758		\$2,758
16	Community Rehabilitation Services, Inc.	5	3			(1)		(1)			
17	Community Union, Inc.	8	0		\$24,000	(1)			(1)		\$24,000
18	Compton Welfare Rights	3	0			(1)					
19	Creative Neighbors Always Sharing, Inc.	12	2	\$6,487	\$4,504	(1)					\$10,991
20	East Los Angeles Women's Center	6	5			(1)		(1)			
21	Eastmount Community Center	7	1			(1)		(1)	\$101,621		\$101,621
22	Santa Anita Family Counseling Center	1	0				(1)				
23	Foothill Family Service	0	0								
24	Foundation for Children's Dental Health	5	2								
25	Harriet Buhai Center for Family Law, Inc.	2	2		\$1,464						\$1,464
26	Human Services Association	1	1								
27	Institute for Black Parenting	9	5		\$9,280			(1)	(1)	\$41,153	\$50,433
28	Institute for Multicultural Counseling and Education Services	0	0			(1)					
29	Jovenes	9	1		\$8,226		\$4,027	(1)			\$12,253
30	Los Angeles Family Housing Corporation	6	4					(1)			
31	Little Tokyo Service Center, Inc.	6	2			(1)		(1)			
32	Los Angeles County Citizenship Assistance Campaign	3	0				(1)				
33	Neighborhood Legal Services	3	2			(1)		(1)			
34	Office of Samoan Affairs	6	2			(1)	\$4,167			(1)	\$4,167
35	Peace & Joy Care Center	7	1						(1)	(1)	
36	Plaza Community Center	5	5			(1)			(1)		
37	Pomona Inland Valley Council of Churches	3	2					(1)		(1)	
38	Project Impact, Inc.	1	1				\$1,904				\$1,904
39	Rainbow Services LTD.	2	1								

Code Summary

- (1)** Contractor was not able to determine the dollar value of one or more findings in this category.

MOSS, LEVY & HARTZHEIM, LLP

CERTIFIED PUBLIC ACCOUNTANTS
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MEMBER:

AMERICAN INSTITUTE OF C.P.A.S
CALIFORNIA SOCIETY OF C.P.A.S
CALIFORNIA SOCIETY OF
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SCHOOL BUSINESS OFFICIALS

OFFICES:

BEVERLY HILLS CALIFORNIA
SANTA MARIA, CALIFORNIA

THOMAS LEUNG, C.P.A.

* DENOTES PROFESSIONAL CORPORATION

Mr. J. Tyler McCauley
Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Re: Work Order No. 7-14A, 2004-05 DPSS CSBG and Traffic Safety Fiscal/Program/ Administrative Review.

The Community Services Block Grant and Office of Traffic Safety Education programs were transferred to the Department of Public Social Services (DPSS) in April 2005. The contracts reviewed for this engagement were written and executed by the Department of Community and Senior Services (CSS) prior to DPSS assuming administrative responsibility. This engagement was requested by DPSS as part of the Auditor Controller's recommendation in an effort to establish the areas of deficiency with the contracts and contract monitoring.

In planning and performing the 2004-05 Department of Public Social Services (DPSS) Community Service Block Grant (CSBG) and Traffic Safety Education programs review, we noted certain matters involving the CSS' internal control structure relating to accounting and contract administration that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report grant expenditures.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material to the County of Los Angeles may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted two weakness involving the internal control that we consider to be a material weakness.

The scope of our engagement was limited to monitoring Service Providers and did not include considering and providing assurance on CSS' internal control structure. Such monitoring would not disclose all matters in CSS' internal control structure that might be reportable conditions and,

accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended solely for the use of the County of Los Angeles and is not intended to be and should not be used by anyone other than the specified party.

The following findings that we feel need to be reported are:

Reportable Conditions

A. Finding – Reimbursement for budget expenditures:

We noted that CSS was reimbursing Service Providers based on budgeted expenditures instead of actual expenditures incurred.

Recommendation:

We recommend that DPSS only reimburse Service Providers for actual expenditures incurred during the Program year, not to exceed budgeted amounts of the contract for which the Service Provider has adequate supporting documentation of such expenditures. The Service Providers shall not be allowed to request reimbursement based on budgeted amounts.

B. Finding – No negative consequences for funding requisition report not submitted timely:

We noted that numerous funding requisition reports have been submitted to DPSS late, but there were no negative consequences for this tardiness.

Recommendation:

We recommend that DPSS penalize Service Providers who submit their funding requisition report after the required date be penalized.

C. Finding – Traffic Safety Program has not been managed effectively and efficiently:

We noted that two Service Providers never performed their Traffic Safety Service. According to the Service Providers, CSS never responded to the Service Providers' request to provide the necessary equipment (safety helmets and car seats) and educational video tapes that were needed to hold the classes.

Recommendation:

We recommend that the performance reports be reviewed more closely and initiate the appropriate action needed to provide technical assistance to the Service Providers in order for the Service Providers to meet their overall contract goals. Also, the necessary equipment should be provided to the Service Providers so that they can hold the required classes.

D. Finding – Providing technical assistance in regards to cost allocation:

We noted that a number of Service Providers did not understand the purpose of a cost allocation plan and allocate expenditures that benefit programs or funding sources on an inequitable basis.

Recommendation:

We recommend that training classes or technical assistance be provided to Service Providers that have difficulties with their cost allocation plan.

E. Finding – Financial stability ratio:

We noted that the financial statement analysis worksheet that was provided by the County was not sufficient in measuring the financial health of the Service Providers. The expense to income ratio and

the income ratio appear to be redundant due to the fact that both ratios include comparisons to gross income.

Recommendation:

We recommend that the County develop a more appropriate financial statement analysis worksheet that contains ratios, such as the net asset to debt ratio and the net assets divided by gross income ratio, in addition to the ratios that are already present on the worksheet.

Material Weakness

F. Finding – Additional Liability exposure for the County of Los Angeles:

We noted that Service Providers are receiving grant money, when they do not have the level of insurance coverage required by the contract, and in some cases no insurance whatsoever.

Recommendation:

We recommend that Service Providers only receive grant money once valid certificates of insurance for the amount required by the contract have been received by the County.

G. Finding – Payments to affiliated persons:

We noted that payments to affiliated persons existed in some Service Providers or paid employees are on the Board of Directors.

Recommendation:

We recommend that a more “pro-active” approach be taken to determine affiliation of employees. Payments to affiliated persons for program expenses that exceed the lower of actual cost or the reasonable cost for such expenses should be disallowed.

Noteworthy Accomplishments and Strengths

H. Professionalism

During our engagement, we noted that the management at DPSS performed numerous follow-ups of the status of the work order with our own staff on a routine basis. In some cases, the department’s staff provided technical assistance and assistance to schedule site visit for us within a short period of time. The appropriate level of support enabled us to accomplish this engagement within the required timeframe.

The recommendations and suggestions herein noted are of a general nature only and are not to be taken as criticism of current management. Should you wish to have a more detailed explanation or assistance in executing them, we would be happy to be of assistance in any way.

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA
April 12, 2006

County of Los Angeles
DEPARTMENT OF PUBLIC SOCIAL SERVICES

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BRYCE YOKOMIZO
Director

LISA NUÑEZ
Chief Deputy



Board of Supervisors
GLORIA MOLINA
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YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

August 31, 2006

J. Tyler McCauley
Auditor-Controller
County of Los Angeles
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Dear Mr. McCauley:

**DPSS RESPONSE TO MOSS, LEVY & HARTZHEIM, LLP MANAGEMENT LETTER
REPORTING THE FINDINGS AND RECOMMENDATIONS IN THE COMMUNITY
SERVICES BLOCK GRANT AND TRAFFIC SAFETY EDUCATION PROGRAM
SERVICE PROVIDERS AUDIT FOR THE PROGRAM YEAR 2004-2005**

Enclosed is our Department's response and corrective action plan to address the findings and recommendations in the Fiscal, Program and Administrative Review of the Community Services Block Grant (CSBG) and Traffic Safety Education Program Service Providers for the program year 2004-2005.

The Department agrees with six and disagrees with one of the findings contained in the management letter submitted by Moss, Levy & Hartzheim, LLP which summarizes the audit findings and recommendations. Of the six recommendations with which we concur, DPSS has already implemented corrective action to address one. Of the remaining five, corrective action for one is targeted for implementation by October 31, 2006; two by November 30, 2006; one by January 1, 2007; and one by January 31, 2007.

DPSS disagrees with Finding A which addresses reimbursements to Service Providers for budget expenditures. Our staff contacted the State to discuss the cost methodology presently applied under the existing CSBG contracts and to verify that State CSBG regulations do not prohibit contractors from being reimbursed up to the budgeted amounts. As current CSBG contracts are both fee for service and actual cost, and as the State confirmed that there are no restrictions on the cost methodology utilized, DPSS is in compliance with State regulations and no corrective action is warranted.

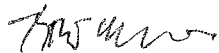
J. Tyler McCauley
August 31, 2006
Page 2

As DPSS requested the audit in an effort to establish areas of deficiency and contract monitoring needs for contracts transferred from the Department of Community and Senior Services to DPSS in April 2005, the corrective action is designed to bring these contracts in compliance with standard DPSS contract management operations.

I am grateful to your staff for expediting the completion of this audit by securing the services of Moss, Levy & Hartzheim, LLP, which resulted in actions that will strengthen our technical contract administration and operating efficiency.

Should your staff have any questions regarding our response, they may contact Gail Dershewitz, Chief, Research, Evaluation and Quality Assurance Division at (562) 908-5879.

Very truly yours,

A handwritten signature in black ink, appearing to read "Bryce Yokomizo", with a stylized flourish at the end.

Bryce Yokomizo
Director

BY:ic

Enclosure

ENCLOSURE

**DPSS RESPONSE TO MOSS, LEVY & HARTZHEIM, LLP MANAGEMENT LETTER
REPORTING THE FINDINGS AND RECOMMENDATIONS IN THE COMMUNITY
SERVICES BLOCK GRANT AND TRAFFIC SAFETY EDUCATION PROGRAM SERVICE
PROVIDERS AUDIT FOR THE PROGRAM YEAR 2004-2005**

FINDING A

Reimbursement for budget expenditures

We noted that CSS was reimbursing Service Providers based on budgeted expenditures instead of actual expenditures incurred.

RECOMMENDATION

We recommend that DPSS only reimburse Service Providers for actual expenditures incurred during the Program year, not to exceed budgeted amounts of the contract for which the Service Provider has adequate supporting documentation of such expenditures. The Service Providers shall not be allowed to request reimbursement based on budgeted amounts.

RESPONSE

The Department disagrees.

State CSBG regulations do not prohibit contractors from being reimbursed up to the budgeted amounts. The cost methodology included in the current CSBG contracts is both fee for service and actual cost. The Department discussed this issue with the State CSBG representative, who confirmed that there are no restrictions on the cost methodology utilized.

STATUS

No corrective action is warranted.

FINDING B

No negative consequences for funding requisition report not submitted timely

We noted that numerous funding requisition reports have been submitted to DPSS late, but there were no negative consequences for this tardiness.

RECOMMENDATION

We recommend that DPSS penalize Service Providers who submit their funding requisition report after the required date be penalized.

RESPONSE

The Department agrees.

The current CSBG contracts do not include a provision to assess a penalty for late submission of billings. Corrective action will be implemented with the new contracts which include a penalty provision, and are effective January 1, 2007.

**DPSS RESPONSE TO 2004-2005 CSBG AND TRAFFIC SAFETY
FISCAL/PROGRAM/ADMINISTRATIVE REVIEW
PAGE 2**

STATUS

Target Implementation Date: January 1, 2007

FINDING C

Traffic Safety Program has not been managed effectively and efficiently

We noted that two Service Providers never performed their Traffic Safety Service. According to the Service Providers, CSS never responded to the Service Providers' request to provide the necessary equipment (safety helmets and car seats) and educational video tapes that were needed to hold the classes.

RECOMMENDATION

We recommend that the performance reports be reviewed more closely and initiate the appropriate action needed to provide technical assistance to the Service Providers in order for the Service Providers to meet their overall contract goals. Also, the necessary equipment should be provided to the Service Providers so that they can hold the required classes.

RESPONSE

The Department agrees.

The Department began monitoring contractors and performance reports on a regular basis effective July 11, 2006. DPSS also initiated action to provide appropriate technical assistance to Service Providers.

To comply with State mandates that Service Providers have staff certified to conduct training and to distribute car seats to the public, DPSS conducted training during the week of June 5, 2006 to enable Service Provider staff to obtain certification. With the required certification, the Service Providers have requisitioned equipment for distribution to the public on a flow basis. The Department also ordered additional training videos to assist agencies with occupant/child safety components of the program. Corrective action will be fully implemented when the videos are received and distributed to the agencies. Follow-up technical assistance is also provided, as needed.

STATUS

Target Implementation Date: October 31, 2006

FINDING D

Providing technical assistance in regards to cost allocation

We noted that a number of Service Providers did not understand the purpose of a cost allocation plan and allocate expenditures that benefit programs or funding sources on an inequitable basis.

**DPSS RESPONSE TO 2004-2005 CSBG AND TRAFFIC SAFETY
FISCAL/PROGRAM/ADMINISTRATIVE REVIEW
PAGE 3**

RECOMMENDATION

We recommend that training classes or technical assistance be provided to Service Providers that have difficulties with their cost allocation plan.

RESPONSE

The Department agrees.

The Department will collaborate with the Auditor-Controller (A-C) to provide technical training to Service Providers who have difficulties with cost allocation plans.

STATUS

Target Implementation Date: November 30, 2006

FINDING E

Financial stability ratio

We noted that the financial statement analysis worksheet that was provided by the County was not sufficient in measuring the financial health of the Service Providers. The expense to income ratio and the income ratio appear to be redundant due to the fact that both ratios include comparisons to gross income.

RECOMMENDATION

We recommend that the County develop a more appropriate financial statement analysis worksheet that contains ratios, such as the net asset to debt ratio and the net assets divided by gross income ratio, in addition to the ratios that are already present on the worksheet.

RESPONSE

The Department agrees.

The Department will request assistance from the A-C, and will provide Service Providers with financial statement analysis training.

STATUS

Target Implementation Date: November 30, 2006

FINDING F

Additional Liability exposure for the County of Los Angeles

We noted that Service Providers are receiving grant money, when they do not have the level of insurance coverage required by the contract, and in some cases no insurance whatsoever.

**DPSS RESPONSE TO 2004-2005 CSBG AND TRAFFIC SAFETY
FISCAL/PROGRAM/ADMINISTRATIVE REVIEW
PAGE 4**

RECOMMENDATION

We recommend that Service Providers only receive grant money once valid certificates of insurance for the amount required by the contract have been received by the County.

RESPONSE

The Department agrees.

The Department will ensure that valid insurance certificates are received from Service Providers in order to allow them to continue providing services under this program. A new automated system is in development to track administrative documents, e.g., insurance certificates.

STATUS

Target Implementation Date: January 31, 2007

FINDING G

Payments to affiliated persons

We noted that payments to affiliated persons existed in some Service Providers or paid employees are on the Board of Directors.

RECOMMENDATION

We recommend that a more "pro-active" approach be taken to determine affiliation of employees. Payments to affiliated persons for program expenses that exceed the lower of actual cost or the reasonable cost for such expenses should be disallowed.

RESPONSE

The Department agrees.

The Department has taken a more "pro-active" approach and assessed the affiliation of employees on the Board of Directors of the Service Provider identified in the report. DPSS referred the subject contractor to contractual language prohibiting "conflict of interest" and, as recommended by Moss & Levy, denied the contractor's waiver to continue in his current capacity until April 2007. The Department also requested that the Executive Director relinquish his voting rights on the Board of Directors on matters that affect his own financial interest, the interest of others in the organization or the organization itself, and informed him of additional actions available to the Department in the contract, should he fail to comply with the requested corrective action.

STATUS

Implemented: July 27, 2006